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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

National Intelligence Officers

NFAC 3764-81
18 June 1981

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH : Deputy Director for National Foreign Assessment
National Intelligence Officer for Warning

FROM : [REDACTED]
Acting National Intelligence Officer for
Western Europe

SUBJECT : Monthly Warning Assessment: Western Europe

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2. France - The Legislative Elections, Round One: The results of the first round of the national elections demonstrated surprising strength on the part of President Mitterrand's Socialist Party, which increased its share of the vote from 24 to 38% of the total. As a result, it is conceivable that the second round may lead to an absolute majority for the Socialists in the Chamber of Deputies, but in any case, the combined Left should enjoy a comfortable majority. The mathematics of the second round will no doubt play some role in Mitterrand's calculus of whether or not to include Communist Ministers in his next government; but even should Mitterrand not require Communist votes in the Assembly, he may, for a variety of reasons, prefer to have the Communists with him, rather than potentially against him. If the Right should make something of a comeback in the second round of the elections, Mitterrand would include Communist ministers in order to provide a Left majority. In any case, we believe that the major figures in Mitterrand's government will remain.

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3. Italy: The Masonic Scandal and Regional Elections: The Masonic scandal differs from previous Italian affairs of this nature in several respects: it cuts across a wide swath of state institutions, it sullies the reputations of many senior military figures who may, in fact, be innocent of any wrong-doing, and it contains so many bizarre twists and turns that it can be exploited by almost anyone (Left or Right) to prove a point. Coupled with the collapse of the government, which resulted in no small measure from this scandal, the confluence of events provokes even more uncertainty than usual in anticipation of the regional and local elections of 21 June. While all parties are hoping that these elections will give some hint concerning voter sentiment, we believe it is more likely that the results (and only some 10% of the electorate is actually going to the polls) will not give any clear indication of popular sentiment. Most noteworthy has been the fact that the only party to emerge unscathed thus far from the scandal has been the Communist Party, adding yet another dimension of uncertainty to the political scene. Whatever the outcome of the elections, we believe that the formation of the next government (the 42nd in 35 years) will be difficult and time-consuming, and could quite possibly lead to national elections in the fall of this year.

4. Greece and the DECA Agreement: The Greek government on balance apparently wishes to achieve a "foreign policy victory" in the current negotiations for a DECA agreement with the U. S. which can then be trumpeted to the electorate as a significant achievement in this fall's national elections. The conclusion of the agreement is by no means a foregone conclusion, however, and if the Greeks do not believe that they have achieved significant results, they may prefer to break off the talks and avoid the vulnerability of being accused of having "surrendered to the Americans." Lacking an agreement, a New Democracy government might well shorten the leash on U. S. installations in Greece somewhat to show its displeasure, but we would not expect any major dislocations. Should the Socialists (PASOK) win the election, however, it is far from clear what they might undertake to show their concerns, but we can be reasonably confident that ultimately they would be more severe than the New Democracy Party.

5. European Concern Over High U. S. Interest Rates: There has been a growing volume of reporting from a variety of sources indicating increasing displeasure on the part of the Europeans, particularly the Germans and the French, with high U. S. interest rates, which they perceive as adding to their energy costs, diverting capital investments to the American market, and fanning the flames of domestic inflation. There is some irony in these European complaints, many from the same people who previously were urging the U. S. to take effective measures to control domestic inflation, but the fact remains that this topic is providing the basis for what may be a universal complaint to be tabled at the Ottawa summit. Although we do not believe it likely that

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there will be any joint and coordinated European demarche, we do believe that the participants will, each in his own fashion, probably raise the subject of high U. S. interest rates as a matter of considerable concern, even though some of the sting may have been removed if the apparent incipient decline of these rates in the last few days persists.

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